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Agenda Item 4b

April 11, 2011

TO: MEMBERS OF THE AD HOC RISK MANAGEMENT COMMITTEE

- I. **SUBJECT:** Risk Exposure Reports
- II. **PROGRAM:** Enterprise
- III. **RECOMMENDATION:** Information
- IV. **ANALYSIS:**

In February 2011, the Office of Enterprise Risk Management (OERM) provided the Board of Administration (Board) with standardized criteria and reporting templates to be used in assessing and monitoring enterprise risks. The standardized criteria will assist management in identifying, assessing, and prioritizing, enterprise risks. In addition, the reports will provide the Board and senior management with a view of what is driving these risks and where additional mitigation efforts may be required.

Over the past month, the OERM has drawn upon experience from across the organization to bring "live" data to these reports. To this end, the OERM developed an Enterprise Risk Profile (profile) that is designed to help the Board and senior management understand the full array of risks that CalPERS faces. This profile was based on the input from an enterprise risk survey, industry best practices, and specific CalPERS risks. The profile is organized by categories and subcategories of risks parallel to those displayed on the Risk Dashboard, and may be modified or added to as the environment changes and new risks emerge. The process of updating the profile helps answer the question, "Are we more at risk today than we were yesterday?" The profile is included as Attachment A to this agenda item.

To provide the Executive Risk Management Committee (ERMC) with a comprehensive view of risk, ratings of the risks within the profile came from three sources. The initial source was the enterprise risk survey completed by senior management during phase I of the enterprise risk management initiative. The second source was provided by the assigned risk assessors. The OERM assigned several assessors to each specific risk. These assessors are the senior managers responsible for the business processes associated with the risks. The assessors performed a management self-assessment on the effectiveness of the internal controls for each risk by identifying the specific controls in place for each risk, assessing the effectiveness of existing controls, and determining the

remaining net risk exposure. Finally, the Chief Risk Officer, Chief Auditor, Chief Information Security Officer, Chief Compliance Officer, and Investment Risk Portfolio Managers reviewed the risk ratings.

The risk assessment results are then rolled up into the Enterprise Risk Dashboard (dashboard) and each subcategory is assigned a rating. The dashboard portrays a holistic view of the CalPERS risk profile “at a glance.” The dashboard is organized like the risk profile and includes definition of each subcategory. A sample of the dashboard is included as Attachment B to this agenda item.

The Enterprise Risk Dashboard, Risk Focus List, and Emerging Risk List have been provided to the ERM for initial review. The ERM has scheduled two half-day risk summits in April and May to undertake a thorough review of enterprise risks and to review and approve the risk reports including the current mitigation strategies. With this review complete, the reports will be presented to the Board.

V. STRATEGIC PLAN:

This recommendation supports Goal II of the Strategic Plan, which states that CalPERS is committed to fostering “a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.”

VI. RESULTS/COSTS:

There are no costs associated with this item.

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RUSSELL G. FONG
Acting Chief Financial Officer

Attachments